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FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 For quarter ended January 31,
1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934 For the transition period from _____
to _____

Commission file number 33-32881-NY

SIGMA ALPHA ENTERTAINMENT GROUP, LTD. 1NY1
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
incorporation or organization)

23-2498715
(I.R.S. Employer
Identification No.)

1080 M. Delaware Avenue, Philadelphia, PA
(Address of principal executive offices)

19125
(Zip Code)

(215) 425-8682
(Registrant's telephone number,
including area code)

Indicate by check mark whether the registrant (1) has
filed all reports required to be filed by Section 13 or
15(d) of the Securities Exchange Act of 1934 during the
preceding 12 months (or for such shorter periods that the
registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past
90 days. Yes X No

Indicate the number of shares outstanding of each of the
issuer's classes of common stock, as of the latest
practicable date.

Class
(Common Stock, \$.001 par value)

Outstanding at April 8, 1992
13,676,380 12/12/92

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SIGMA ALPHA ENTERTAINMENT GROUP, LTD

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SIGMA ALPHA ENTERTAINMENT GROUP, LTD. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

	January 31, 1992 (UNAUDITED)	July 31, 1991 (NOTE 1)
ASSETS		
CURRENT ASSETS:	\$ 1,000	\$ --
Cash and Equivalents		
Accounts Receivable - trade, less allowance for doubtful accounts of \$34,000 (January 31, 1992) and \$30,000 (July 31, 1991)	32,000	111,000
Notes Receivable	10,000	--
Inventories	62,000	129,000
Equipment held for resale	--	426,000
Prepaid expenses and other current assets	1,000	19,000
Total Current Assets	<u>106,000</u>	<u>685,000</u>
ADVANCES TO ARTISTS, LESS ALLOWANCE FOR NON RECOUPMENT OF \$763,000 (January 31, 1992) and \$653,000 (July 31, 1991)	660,000	710,000
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION AND AMORTISATION	479,000	513,000
	--	73,000
DEFERRED OFFERING COSTS	<u>1,245,000</u>	<u>1,981,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:	\$ 279,000	\$ 999,000
Notes payable to banks	200,000	309,000
Current portion of long-term debt	442,000	314,000
Notes payable to officers	631,000	734,000
Notes payable to others	985,000	802,000
Accounts payable - trade	83,000	225,000
Estimated liability for sales returns	284,000	169,000
Due to distributor	292,000	208,000
Taxes, other than income taxes	400,000	150,000
Accrued wages - officer	428,000	431,000
Accrued expenses and other current liabilities	<u>8,024,000</u>	<u>8,334,000</u>
Total Current Liabilities	480,000	93,000
LONG-TERM DEBT, LESS CURRENT MATURITIES		
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Common stock, \$.001 par value:		
Authorized - 80,000,000 shares		
Issued and outstanding - 13,306,000 shares (January 31, 1992) and 11,106,000 shares (July 31, 1991)	12,000	11,000
Additional paid-in-capital	8,631,000	3,969,000
Retained earnings (deficit)	(8,437,000)	(6,426,000)
	(2,794,000)	(2,446,000)
Less-Unearned future compensation to consultants	(465,000)	--
Total Stockholders' Equity (Deficiency)	<u>(3,259,000)</u>	<u>(2,446,000)</u>
	<u>\$ 1,245,000</u>	<u>\$ 1,981,000</u>

See accompanying notes to consolidated financial statements.

SIGMA ALPHA ENTERTAINMENT GROUP LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

The Company's continuing record operations constitute a development stage enterprise which intends to develop and market new recording artists. Activities to date have been primarily directed towards organizing these operations, recruiting employees, developing an artist roster and obtaining capital. Accordingly, the following statements have been prepared to present the continuing record operations.

	Three Months Ended January 31		Six Months Ended January 31	
	1992	1991	1992	1991
COSTS AND EXPENSES RELATING TO CONTINUING RECORD OPERATIONS:				
Cost of record sales and distribution	\$ 59,000	\$ 38,000	\$ 62,000	\$ 170,000
New artist development costs	7,000	205,000	10,000	351,000
Provision for non-recoupment	100,000	--	100,000	--
Marketing and promotion	235,000	108,000	431,000	292,000
General and Administrative Expenses:				
Officers' compensation	125,000	68,000	250,000	161,000
Other salaries and payroll costs	97,000	30,000	203,000	169,000
Consulting fees	459,000	184,000	547,000	408,000
Professional fees	164,000	148,000	211,000	148,000
Other	107,000	293,000	215,000	486,000
Total general and admin. expenses	952,000	723,000	1,426,000	1,372,000
Interest Expense	83,000	55,000	190,000	137,000
Total development stage costs and expenses	1,416,000	1,131,000	2,319,000	2,322,000
REVENUES PRIOR TO COMMENCEMENT OF PLANNED PRINCIPAL CONTINUING OPERATIONS:				
Limited sales of records, less sales returns of \$0 and \$213,000 (three months ended 1992 and 1991); \$16,000 and \$268,000 (six months ended 1992 and 1991)	--	2,000	--	14,000
Licensing fees and other	10,000	4,000	19,000	6,000
Total development stage revenues	10,000	6,000	19,000	20,000
LOSS FROM CONTINUING RECORD OPERATIONS	(1,406,000)	(1,125,000)	(2,200,000)	(2,302,000)
INCOME (LOSS) FROM DISCONTINUED STUDIO OPERATIONS:				
Operating Loss	--	(4,000)	(30,000)	(98,000)
Gain on sale of studio	--	--	219,000	--
NET LOSS	\$ (1,406,000)	\$ (1,129,000)	\$ (2,011,000)	\$ (2,400,000)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
	13,300,042	3,833,334	12,978,882	3,769,016
LOSS PER SHARE OF COMMON STOCK:				
Continuing record operations	\$ (.11)	\$ (.29)	\$ (.17)	\$ (.61)
Discontinued studio operations:				
Operating loss	\$ --	\$ --	\$ --	\$ (.03)
Gain on sale of studio	\$ --	\$ --	\$.02	\$ --
Net loss	\$ (.11)	\$ (.29)	\$ (.15)	\$ (.64)

See accompanying notes to consolidated financial statements.

SIGMA ALPHA ENTERTAINMENT GROUP, LTD AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES
IN STOCKHOLDERS' EQUITY (DEFICIENCY)
UNAUDITED

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>
	<u>Number of</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>
	<u>Shares</u>		<u>Capital</u>	<u>(Deficit)</u>
BALANCES, JULY 31, 1991:	11,106,000	\$11,000	\$3,969,000	\$6,426,000
<u>SIX MONTHS ENDED,</u>				
<u>JANUARY 31, 1991:</u>				
Issuance of common stock:				
For warrant exercise, less related costs of \$73,000	54,000	--	61,000	
For cash, less related costs of \$14,000	150,000	--	136,000	
For consulting and other services	1,496,000	1,000	1,083,000	
For conversion of debt	500,000	--	382,000	
Net loss				(2,011,000)
BALANCES, JANUARY 31, 1992	<u>13,306,000</u>	<u>\$12,000</u>	<u>\$5,631,000</u>	<u>\$18,437,000</u>

See accompanying notes to consolidated financial statements.

SIGMA ALPHA ENTERTAINMENT GROUP, LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Six Months Ended January 31,	
	<u>1992</u>	<u>1991</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$(2,011,000)	\$(2,400,000)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization of property and equipment	76,000	124,000
Gain on sale of equipment	(219,000)	--
Issuance of common stock for services provided	619,000	60,000
Changes in operating assets and liabilities:		
Accounts receivable - trade	79,000	(6,000)
Notes receivable	(10,000)	--
Due (to) from distributor	119,000	52,000
Inventories	67,000	(56,000)
Prepaid expenses and other current assets	18,000	(4,000)
Accounts payable - trade	135,000	248,000
Estimated liability for sales returns	(142,000)	56,000
Taxes, other than income taxes, payable	87,000	95,000
Advances to artists	50,000	(28,000)
Accrued expenses and other current liabilities	301,000	550,000
Net cash flows from operating activities	<u>(831,000)</u>	<u>(1,309,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term and subordinated debt	--	8,000
Principal payments on long-term debt	(2,000)	(11,000)
Net borrowings under notes payable to banks	32,000	--
Principal payments under notes payable to banks	(2,000)	--
Proceeds from notes payable to others	285,000	1,122,000
Repayments on notes payable to others	(15,000)	(86,000)
Net Proceeds from issuance of common stock	197,000	100,000
Deferred offering costs	73,000	39,000
Proceeds from loans payable from officers	443,000	166,000
Repayments of loans payable from officers	(179,000)	(29,000)
Net cash flows from financing activities	<u>832,000</u>	<u>1,309,000</u>
NET CHANGE IN CASH AND EQUIVALENTS	1,000	--
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	--	--
CASH AND EQUIVALENTS, END OF PERIOD	<u>\$ 1,000</u>	<u>\$ --</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 50,000</u>	<u>\$ 101,000</u>
Net debt relieved pursuant to sale of studio	<u>\$ 603,000</u>	<u>\$ --</u>
Assets sold pursuant to sale of studio	<u>\$ 384,000</u>	<u>\$ --</u>
Consulting and other future services paid by issuance of common stock	<u>\$1,084,000</u>	<u>\$ --</u>
Conversion of notes payable to others, plus accrued interest, into common stock	<u>\$ 382,000</u>	<u>\$ --</u>
Conversion of preferred stock to notes payable to officers	<u>\$ --</u>	<u>\$ 456,000</u>

See accompanying notes to consolidated financial statements.

SIGMA ALPHA ENTERTAINMENT GROUP LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION:

The Company's consolidated balance sheet at the end of the preceding fiscal year has been derived from the audited consolidated balance sheet contained in the Company's Form 10-K and is presented for comparative purposes. All other financial statements are unaudited. In the opinion of management, all adjustments which include only normal recurring adjustments necessary to present fairly the financial position, results of operations and changes in financial position for all periods presented have been made. The results of operations for interim periods are not necessarily indicative of the operating results for the full year.

Footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the published rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the most recent fiscal year.

The Company's success is dependent on its ability to generate cash in order to satisfy its immediate and short term needs. In the event the Company is unsuccessful in meeting its present cash needs, financial reporting on a liquidation or reorganization basis may become necessary. Financial statements of the Company prepared on these bases would be materially different from those of a going concern primarily in substantial writedowns in the carrying amounts of inventories, advances to artists and property and equipment.

NOTE 2 - COMMITMENTS AND CONTINGENCIES:

Legal Proceedings

The Company is a defendant in a number of legal proceedings which have occurred in the normal course of business. Those cases in which the ultimate settlement is known or can be estimated have been accrued in the financial statements. The aggregate claims in excess of amounts accrued at January 31, 1992 are not significant.

SIGMA ALPHA ENTERTAINMENT GROUP LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is an analysis of certain significant factors that have affected the Company's financial position and operating results during the periods included in the accompanying consolidated financial statements. This discussion should be read in conjunction with management's discussion and analysis filed with Form 10-K for the fiscal year ended July 31, 1991.

Material Changes in Results of Operations

Total development stage costs and expenses decreased from \$2,322,000 for the six months ended January 31, 1991 to \$2,219,000 for the same six month period ended 1992. This decrease relates principally to significant new artist development costs incurred in 1991. These same costs and expenses increased from \$1,131,000 for the three months ended January 31, 1991 to \$1,416,000 for the three months ended January 31, 1992 for a total increase of \$285,000. This increase was principally the result of (a) a substantial stock issuance for services rendered in lieu of salary to the former director of corporate finance; (b) the accrual of unpaid salaries to officers in accordance with their respective employment agreements; and (c) management's decision to expense a portion of artist advances to include the related inventory attributable to those artists who are not scheduled to be released in the current fiscal year.

By consummating the sale of the Company's studio division and realizing a gain of \$219,000 on the transaction, management expects to reduce its general operating costs and interest expense in future periods while continuing to maintain its focus on building a viable entertainment record label.

Liquidity and Capital Resources

The Company's cash flow from financing activities contributed \$832,000 for the six months ended January 31, 1992 and \$1,309,000 for the six months ended January 31, 1991 primarily from the issuance of stock for cash, loans from others, and periodic loans from the President and Chairman of the Company.

The decline in the Company's accounts receivable from \$111,000 in 1991 to \$32,000 in 1992 is principally the result of a lack of record sales and collection of the studio receivables not sold in connection with the sale of the studio.

The Company continues to experience financial difficulties. However, management is aggressively pursuing various financing arrangements to continue to develop and release its product and generate future sales. Specifically, the following material events have taken place since the Company's fiscal 1991 year end:

- (1) In addition to those warrants exercised and reported in these financial statements, the Company recently received proceeds of \$423,000 from the exercise of 169,200 Class A warrants.
- (2) Private placements of 400,000 shares have been sold for gross proceeds of \$200,000.
- (3) The Company is currently in negotiations to eliminate its outstanding payroll tax liability and has paid \$40,000 toward this liability since February 1, 1992 while continuing to make current tax deposits.
- (4) Proceeds from debt and equity investors have been substantially used for artist development, promotion and marketing for the Company's artists and to pay down outstanding liabilities through various payment arrangements.

The Company is currently scheduled to release Lorenzo's single and album, its first artist release to be distributed through PolyGram Distribution and in retail outlets early June 1992. However, due to the lag time in sales of approximately two months from the date of release, the Company does not expect to realize sales from this release until approximately September, 1992.

Management continues to explore new talent while working on its current artist roster. The Company's second and third artist releases, Brandon and Life, are currently in production and it is anticipated that the Company's second artist release through PolyGram Distribution will occur in September of 1992.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The following information supplements the legal proceedings noted in the Company's 10-K report for the period ended July 31, 1991:

NFL Films, Inc. v. Sigma Alpha Entertainment Group, Ltd. and Alpha International Record Company, Pennsylvania Court of Common Pleas, Philadelphia County, #90-10-06730. The Company has paid NFL Films additional sums and presently owes \$8,500. The Company expects to pay the balance by the beginning of May, 1992.

Solid State Logic v. Sigma Alpha Entertainment Group, Ltd., Pennsylvania Court of Common Pleas, Philadelphia County, #91-02-2523. On January 7, 1992, the Company reached an out of court settlement with Plaintiff, however the Company has not met all of the installments. The Company is presently negotiating a revised payment schedule for this Matter.

Imaging Systems, Inc. v. Alpha International Record Company, Pennsylvania Court of Common Pleas, Philadelphia County, May Term, 1991, No. 547. A judgment was entered without notice to the Company and the Company intends to appeal if a satisfactory settlement can not be achieved.

Penn Colour Graphics, Inc. v. Alpha International Records, Pennsylvania Court of Common Pleas, Philadelphia County, July Term, 1991. On March 16, 1992, the Company entered into a stipulation in which a judgment totalling \$17,500.00 would be paid out over a period of ten months.

Bell Atlantic Tricon Leasing Corporation v. Sigma Alpha Entertainment Group, Ltd., Pennsylvania Court of Common Pleas, Philadelphia County, August Term, 1991, No. 2451. The parties reached a second settlement agreement to pay the sum of \$17,000 over a twelve month period, beginning March 18, 1992.

Rosenbluth Travel Agency, Inc. v. Alpha International Records, Pennsylvania Court of Common Pleas, Philadelphia County, October Term, 1991, No. 56. The Company has reached a settlement of this Matter.

Federal Express Corporation v. Alpha International Records, Pennsylvania Court of Common Pleas, Philadelphia County, June Term, 1991, No. 3379. The Company has satisfied the obligation in this Matter.

Masterwork Recording, Inc. v. Alpha International Record Co., Court of Common Pleas, Philadelphia County, Pennsylvania, November Term, 1991, No. 2955. A summary judgment was granted for Plaintiff on March 11, 1992 and the Company is attempting to negotiate a payment of the judgment over a reasonable period of time.

Bellevue Stratford v. Alpha International Record Co., Philadelphia Municipal Court. The Company has satisfied the judgment.

CEMA Distribution v. Sigma Alpha Entertainment Group, Ltd/Alpha International Records. The Company filed its Answer on January 23, 1992. This case is presently the subject of a mediation process and the Company has submitted a proposed settlement which Plaintiff is presently considering.

Item 2. Changes in Securities

NONE

Item 3. Defaults Upon Senior Securities

NONE

Item 4. Submission of Matters to the Vote of Shareholders

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

NONE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sigma Alpha Entertainment Group, Ltd
(Registrant)

Date: April 8, 1992

Peter S. Felullo
Peter S. Felullo
President and Chief Executive Officer

Date: April 8, 1992

Angelo M. Capolupo
Angelo M. Capolupo
Controller (Principal Accounting
Officer)